



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

APPROVED

MINUTES

OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:32 a.m., September 25, 2001. The following members were present:

Jody B. Olson  
Dennis L. Johnson  
J. Kirk Sullivan  
Pamela I. Ahrens  
Susan K. Simmons

Executive Director Alan H. Winkle, , Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn	Dorn, Helliesen & Cottle
Rod MacKinnon	Mountain Pacific Investment Advisors
Bruce Reeder	Mountain Pacific Investment Advisors
Bill Palumbo	Mountain Pacific Investment Advisors
Brian McGrath	DB Fitzpatrick & Co.
Drew Black	DB Fitzpatrick & Co.
Robert Schmidt	Milliman USA
James Coleman	PERC / Retired Teachers
Charlie Brown	Retired Educators Association of Idaho
Richelle Sugiyama	PERSI
Cecile McMonigle	PERSI
Rhonda Yadon	PERSI
Carol Boylan	PERSI

EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity of holding an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(b) authorizes the same. By motion duly made by Trustee Sullivan,

seconded by Trustee Johnson and unanimously approved, the Board went into executive session at 8:33 a.m.

#### REGULAR SESSION:

At 8:55, the Board reconvened in open session. Chairman Olson told those present that in the Executive Session, the Board had conducted the annual performance review of Chief Investment Officer Robert Maynard. He said the Board is proud of our fund performance in this down market. He conveyed the Board's appreciation to Mr. Maynard. By motion duly made by Trustee Ahrens and seconded by Trustee Sullivan, the Board unanimously approved a salary increase of 7.5% and a \$15,000 bonus for Mr. Maynard.

#### OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the August 21, 2001 regular meeting of the Retirement Board.

#### PORTFOLIO

Monthly Portfolio The Board had received copies of a Trustee Handbook on pension Fund Investing from the Institute for Fiduciary Education. Mr. Maynard said it is a good reference source regarding the various aspects of being a trustee and fiduciary and running a fund like PERSI. He discussed his investment report dated September 17, an updated version dated September 23 and a summary dated September 24. Trustee Sullivan asked for future reports to be labeled to allow easy locating of the DC plan returns. The market volatility was evident in this uncertain period. In the report, Mr. Maynard noted that

“The recent tragedy came on top of an earnings reporting cycle that had not produced optimistic news and economic reports that showed worsening conditions (the Leading Economic Indicators report was negative for the first time in four months). Most observers expect an actual recession to occur over the next few months as consumer spending, in particular, is expected to fall significantly in reaction to ongoing events. Recovery expectations have been pushed back to the second quarter of next year. As a result, the equity market is down around 21% this fiscal year, while fixed income has gained around 4%. PERSI's FYTD returns of negative 13.4% are about 1% ahead of the 55-15-30 benchmark.”

Mr. Maynard said the present market is worse than a normal “bad market” – our funding policy is not set up to protect us against this situation. He discussed how diversification and active management are helping. Staff will watch the allocation and rebalance from fixed income into international equity and perhaps into US equity to avoid any large bias towards one or the other.

The discussion continued regarding the economy in this uncertain time as consumer confidence and consumer spending reach unexpected lows in the wake of the World Trade Center disaster.

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. Dennis Fitzpatrick noted that the energy conservation programs in California lowered the demand and the predicted crisis there never occurred. Managers commented on the various market sectors they felt would feel the most

impact from the attack, including hotels, airlines, and entertainment venues such as theatres. Most looked for a temporary lull before the resilient consumer regains courage to come back into the market.

Other Business: Chairman Olson noted that Trustee Johnson will host the October 23, 2001 meeting at United Heritage Insurance in Meridian. Because he will not be able to attend the meeting, Chairman Olson has asked Trustee Sullivan to chair the meeting.

### FISCAL

Expense Reports: The Administrative and Portfolio Expense reports had previously been furnished to the Board. Financial Officer James Monroe briefly discussed those and said the audit field work is complete and the audit report is expected in October. The Mellon Bank System successfully put their backup system to the test as a result of the terrorist attack in New York by relocating the physical security vault operations for two weeks. Their ability to continue operations in a disaster is reassuring to PERSI staff.

### LEGAL

401(k) Plan Amendment Decision: Deputy Attorney General Brad Goodsell had provided proposed amendments to the PERSI 401(k) Plan to Board Members for their review. The amendments provide for implementation of the merger of the Idaho Super Saver 401(k) plan with the Choice Plan. By motion duly made by Trustee Sullivan seconded by Trustee Simmons and unanimously approved, the Board adopted the proposed amendments effective October 1, 2001.

### EXECUTIVE DIRECTOR

Legislation: Mr. Winkle told the Board that the legislation previously approved has been submitted; copies were provided to the Board for their review.

IRS Letter of Determination Discussion and Decision: The memo to the Board dated September 10, 2001 addressed the fact that the IRS is proposing new regulations limiting the occasions for which a system can request a Letter of Determination, primarily because of the increasing workload and decreasing staffing. Additionally, the memo noted that according to a recent Public Pension Coordinating Council survey, PERSI is the only public retirement system that obtains an annual letter of determination. By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously approved the staff recommendation to seek an IRS Letter of Determination only when there have been significant changes to the plan or when there is a compliance issue with the plan design.

Entry Cost Calculation Discussion and Decision: Mr. Winkle had provided a memorandum on this topic dated September 10, 2001 which included a summary of the entry costs calculated in recent employer cost studies. If there are 20 or fewer employees, it does not appear to be cost-effective to require such studies. After clarification that the single criteria for requiring the study in the future will be if there are more than 20 employees, by motion duly made by Trustee Simmons, seconded by Trustee Johnson and unanimously approved, the Board adopted the staff recommendation and directed that actuarial studies to determine employer entry costs be required only from employers with more than twenty (20) employees.

New Employers: By motion duly made by Trustee Ahrens, seconded by Trustee Simmons and unanimously approved, the Board welcomed West Bonner Library District, Valley Recreation District of Hazelton and The City of Kootenai as new PERSI employers all with an effective date of October 1, 2001.

Preliminary Actuarial Valuation Results: Actuary Robert Schmidt reviewed the gains and losses for the year ended July 1, 2001 and discussed the unfunded actuarial accrued liability on a current contribution basis. There was discussion regarding the effect of a proposed March 1, 2002 Cost of Living Adjustment (COLA) for PERSI retirees. In response to a question from the Board, Mr. Schmidt said the assumptions do lean to the conservative side relative to those of the typical fund. Mr. Maynard noted that salary and investment return assumptions are conservative but the demographic assumptions are not as conservative. When a trend is noted such as from an existing assumption, PERSI moves gradually in that direction rather than making abrupt changes. There was discussion as to whether the universities will propose legislation to change the ORP contribution. The market conditions have removed much of the argument they had, so Mr. Winkle doesn't believe it will be an issue. Mr. Winkle presented the Powerpoint handout he had furnished to the Board which reviewed the funding guidelines and the amortization period. The COLA decision does not have to be presented to the legislature until the fifth day of their 2002 session. The Board favors waiting to see the market and economic conditions in the next weeks and will not make the COLA decision until at least the November Board meeting. Board members discussed the possible future need to raise contribution rates to meet the 25-year amortization cap. Chairman Olson said if such an increase becomes necessary, he wants to give agencies as much lead time as possible to build the increase into budgets.

Retiree James Coleman who attended the meeting as a representative of retired teachers, commented that many of the retirees are not in the stock market, but are depending on interest from certificates of deposit to supplement their PERSI benefits. As interest rates decline, they receive less income.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. Mr. Winkle said data for printing annual statements is being generated. The vendor will mail them directly to the homes of those whose addresses are on file now at PERSI. If we have no home address on file, we will ask the employer to distribute them.

Answering a question from Chairman Olson, Mr. Winkle said the newsletter announcing that there will be no gain sharing this year will be distributed with the 401(k) statements which are due in mid-October. He also said the search for a Deputy Director to replace Ted Aho who has resigned to take an IT job, is beginning. The report on renovation of the 820 building is expected for the November Board meeting.

Trustee Johnson noted that the Retiree Medical Advisory Committee had a final meeting where it was concluded that there are no immediate solutions to the problem. Pooling for a better price on prescriptions and offering a participant-paid long-term-care program might be viable. He said some committee members had wondered if PERSI had funds to contribute to this issue, but understood that we do not.

Trustee Sullivan asked when all PERSI members would be able to make voluntary contributions to their Choice plan as was envisioned when the gain sharing legislation was

approved. Mr. Winkle said it depends on the payroll system of each employer. We are working with the 100 largest employers which covers 85-95% of the members with a target to have them operating within this first year. Employers must modify their payroll systems to be able to transmit the data and contributions electronically. Mr. Sullivan asked if there is an alternative we can offer. Mr. Winkle said we do not have the staff to handle hand processing. When we have most employers set up electronically, we will work with the smaller employers with 25 or less employees and explore alternative processing methods. Currently, we do not have the staff to do this and we don't want funds coming to us that we cannot get invested quickly and accurately.

Answering a question from the audience, Mr. Winkle said 98.% of the investments are in the Choice Plan Total Return Fund; the others are invested using the other ten options. Most are staying with the PERSI Total Return fund.

#### FUTURE BOARD MEETINGS

Trustee Johnson reminded everyone that the Board will hold the October meeting at the new office of United Heritage in Meridian on the third floor. United Heritage is located at 707 E. United Heritage Court in Meridian.

Tuesday, October 23, 2001, 8:30 a.m., United Heritage Office – Meridian, Idaho

Tuesday, November 27, 2001, 8:30 a.m., Boise - PERSI office

Tuesday, December 18, 2001, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the meeting was adjourned at 10:40 a.m.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director